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Remarks and Analysis from:

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The Econometer Special Edition

"Is it that bad – again?" *Economic Commentary*

The numbers and trends that I'll discuss today cover the St. Louis Metropolitan Statistical Area, which consists of the city of St. Louis, MO, the Missouri counties of St. Louis, St. Charles, Franklin, Jefferson, Lincoln and Warren, and the Illinois counties of Madison, St. Clair, Clinton, Monroe and Jersey. However, most of these trends reflect what's happening in the nation as a whole, and tend to be equally true for other areas of the country.

When I started as the St. Louis local labor market analyst in January of 1994, the area - and the nation - were just coming out of an economic recession. Unemployment had been high, a number of area companies - most notably McDonnell Douglas - were having major and well-publicized layoffs, and the general economic picture was downright gloomy. Back then, when I gave a speech like this, my general theme was "It's Not Really That Bad". In the late 1990's, the theme became "Is It Really That Good?". Now the prevailing mood seems to be "Is it that bad - again?" That's a fair question. Since the terror attacks of 9/11, most economic headlines have been bad: Dow Jones and NASDAQ losses, red-ink bottom lines, major layoffs and downsizings, jobs exported overseas. Unemployment is up, jobs are down. Has the situation gotten that bad…again?

I think it's more than a coincidence that our last four significant economic slowdowns have all followed spikes in oil prices. Those who have been around a while will remember the Arab-Israeli war of 1973, which was followed by the Arab oil boycott and the emergence of the Organization of Petroleum Exporting Countries (OPEC) as a major factor in the world and national economies. There was a big spike in the price of oil, with supply shortages and lines at the gas pumps. Our economy went into a major recession, with local unemployment peaking at 7.9 percent in 1975. In 1978, there was the crisis in Iran, culminating in the hostage situation at the U.S. embassy. Again, oil prices spiked, and there were major shortages and gas lines in the U.S. The recession that followed was the worst since the Great Depression, with unemployment peaking at 10.7 percent in the St. Louis area in 1983. In 1989, there was Operation Desert Storm, which brought on another oil price spike. This time, there weren't the shortages and gas lines, and the recession of the early 1990's was milder, with unemployment peaking at 7.0 percent in 1991. This time around, the price spike was brought on by an economic decision by OPEC to cut production and push prices up. Again, there have been no major shortages or gas lines in the U.S…and unemployment has been relatively lower. In each slowdown, the first signs of a recovery came from the Index of Leading Economic Indicators, which measures such things as new construction starts, orders for manufactured goods, demand for housing and money in circulation. Toward the end of each recession, once the economic indicators had turned upward, recovery in the labor market (more jobs, lower unemployment) followed by about a year. In the case of this slowdown, the major economic indicators started to turn around in mid-2003…so past experience would indicate that the job market should start to improve this coming spring. However, the terror attacks and the war in Iraq are wild cards that weren't present before, and there's no way to tell ahead of time if they're going to hold down the job market this time around…it will come out in the next year.

During the seven years from 1994 until 2001, we enjoyed one of the strongest labor markets in our history. The St. Louis area unemployment rate reached an all-time low of 3.0 percent in November 1999. With St. Louis area non-farm payroll employment reaching a high of 1,340,000 jobs in 2000, the area had added jobs at three times the rate it had added people since 1990; 49,000 more jobs than people to fill them. In the two largest suburban counties – St. Louis County and St. Charles County – unemployment was under 2 percent, and companies literally couldn't find workers to fill jobs. Unfortunately, things have changed.

At 5.6 percent as of January 2004, the area unemployment rate is over 85 percent higher than it was at the peak of the boom. At 1,291,000 in 2003, non-farm payrolls have shed those 49,000 jobs that were in excess of population growth. We are in a labor surplus economy – rather than a labor shortage economy - for the first time since the early 1990's. However, let's keep those numbers in perspective. The 2003 figure still represents an increase of more than 100,000 jobs since 1990. 5.6 percent unemployment is a LOT lower than the peak unemployment rates in the three previous slowdowns. So…we're back to "It's not really that bad."

So…we still have major long-term job growth despite the down cycles in the economy. Where's it coming from? Answer: not across the board . Our statistics on employment divide our industries into two broad categories: "goods-producing" - manufacturing, mining and construction - and "service-producing" - transportation, wholesale and retail trade, finance, insurance, real estate, services and government…and the job growth has been on the service-producing side. Among the goods-producing industries, construction has done all right, adding a large number of workers since 1990, but manufacturing employment has dropped dramatically since 1990. Some of that can be attributed to a change in the industry coding system we use, which moved some industries from manufacturing to services, but even so, this continues a long-term trend that has seen the St. Louis area lose almost half of its manufacturing jobs since 1972. There are names that go with that number, names like Boeing, General Motors, Carter Carburetor, Scullin Steel, Continental Can, Amoco Oil, Maverick Tube, Brown Shoe. Up until the 1990's, the manufacturing jobs being lost were mostly low-skill jobs on the assembly line: the blue-collar worker's ticket to the middle class. With deregulation of the economy and removal of trade barriers, these jobs moved out of the country. What was left was a smaller – but still viable – base of high-tech, high-skill manufacturing. These industries couldn't easily be shifted out of the country because of their high skill and infrastructure requirements. However, the current slowdown has hurt even the high-tech, high-skill manufacturing industries.

While manufacturing has shrunk, service-producing industries have grown very quickly. The "services" part of "Service-Producing Industries" – hotels, advertising agencies, tax preparers, temporary help agencies, janitorial services, repair shops, recreation, health services, lawyers, private schools, social service agencies, membership organizations, engineering firms and management consultants – has grown the fastest. Local governments (including public schools) have grown rapidly in the area's suburban counties. Department stores, specialty stores and restaurants have driven most of the growth in retail trade employment. Mortgage banks, credit card processors and real estate operators have produced the expansion in finance, insurance and real estate, despite some recent mergers that have cut employment at area banks.

I should say that the service-producing growth has been almost across the board. The exception has been the federal government. Large cuts in military spending and smaller cuts in federal social services have eliminated close to 30 percent of the area's federal jobs since 1990. On a more recent note, the current slowdown, although milder overall than the previous three slowdowns, has done something they didn't: it has hit the service-producing sector as well as the goods-producing sector. Service-producing sectors like communications, dot-coms, Internet service providers and air transportation have taken significant hits in employment. State and local government, which had been virtually recession-proof, has also been hit by this slowdown. During the strong economy of the late 1990's, government agencies were able to continue operating at normal levels despite tax cuts because the strong economy was keeping revenues high. Now both state and local government agencies are facing unprecedented revenue crunches and are having to make painful cuts in staffing and services.

The figures give some support to the argument that we're going from a manufacturing economy to a service economy - the old stereotype of the 12 dollar an hour assembly line job being replaced by the minimum-wage service job. However, if that were the case, then we'd expect to see average wages going down in the area. In fact, there aren't many minimum-wage jobs in construction, and health service jobs are as likely to involve programming diagnostic equipment as they are to involve emptying bedpans. A job in retail trade may involve punching a cash register - or managing a store. A job in business services may be to guard a warehouse - or to design a software system. The perception of service-producing industries as less desirable places to work doesn't always hold water. Overall wages have not only grown during the transition to a service-based economy, but for the most part, they have outstripped increases in prices.

In one regard, the job market has actually been much better than news reports have indicated. We've seen numerous reports about large companies that have been "downsizing" in the St. Louis area - companies like Boeing, Southwestern Bell, General Motors, Bank of America, FirstStar Bank and BJC Health Systems. I think we tend to assume that the smaller companies have been going along with these big ones in laying people off. In fact, that hasn't been the case. For a number of years, most job growth has been in small and medium-sized companies; in fact small employers – companies with less than 100 employees – have accounted for about 90 percent of the job growth on the Missouri side of the area since 1990. Large firms – companies employing more than 500 people – have actually cut employment since 1985 – and the recent wave of downsizings have been concentrated in those same large companies. That means that the media reports have distorted the actual job picture: the job cutbacks by the large companies will make the headlines, but 5 hires each by 100 small and medium-sized companies won't be noticed. There is a down side to that concentration of growth in the smaller employers: there's a significant wage gap between large employers and small employers. On any measure of tangible job benefits -salaries, health care, other fringe benefits - small employers tend to lag behind big employers. They also have much higher failure rates than big companies. On the other hand, small companies often do better on intangibles, things like job satisfaction, accessibility of management, a feeling of belonging and making a difference.

The numbers show that the economy is adding jobs, but what kind of jobs is it adding? At this point, I'd like to put in a plug for my agency's website: *www.MissouriEconomy.org*. This site has all kinds of economic information for the state and its regions, including the St. Louis area. Among that information are employment projections out to the year 2010 for several hundred occupations. These projections are derived by combining statistical models that take employment trends for the last 25 to 30 years and extend them forward, and occupational staffing patterns that take into account structural employment changes within industries.

Not surprisingly, our projections call for service-producing industries to resume their previous strong growth once this slowdown is over, with a few exceptions. One exception is the federal government, which is continuing to shrink. With the shutdown of the Army Aviation and Training Command in St. Louis City, the uncertainly over the future of Scott Air Force Base and the continuing budgetary squeeze on federal social service programs, I'm afraid our federal employment projections are all too accurate. Another exception is air transportation: with the former

Trans World Airlines hub at Lambert Field now shut down, this is an industry that has shrunk drastically in the last couple of years…and doesn't figure to recover its losses.

In general, our occupational projections indicate that well-trained, well-educated people will fare the best in the job market of the future. Even though the latest wave of downsizings has hit managers and professionals, professional occupations still account for the second-highest number of projected job openings, trailing only service occupations. Sales occupations and skilled crafts also show healthy increases. Managerial occupations show a high rate of growth, trailing only service and professional occupations. Reflecting the loss of manufacturing jobs, production-oriented blue collar jobs show the slowest projected rates of growth. Untrained and uneducated workers, who could once get good-paying jobs on assembly lines, are now being forced into service jobs at the low end of the pay scale. Among individual occupations, the three fastest-growing and six of the ten fastest-growing are in health care.

It's a fairly safe assumption that our job growth will resume. It's also a fairly safe assumption that population growth will continue to be slow – slower than employment growth. With birth rates remaining relatively low, young workers entering the labor market will be in short supply. Where else will we find the additional workers?

One possible source is immigration. There has been a major increase in the number of immigrants entering the United States, mainly from Latin America, but also from Asia and eastern Europe. While we think of immigrants as being low-skill workers, activity in H-1B visas, which bring highly skilled workers into this country to fill openings that employers can't fill with local workers, has increased every year over the last decade.

Another source is older workers. We've seen a fascinating trend in that regard. The percent of older workers in the work force had been decreasing rapidly since the 1950's, with employers wanting younger workers and more and more older workers taking early retirement. That has now turned around. The percent of older workers is now on the rise. Employers are finding that older workers often have better work habits and attitudes – and are able to keep up with changing technology. That trend is going to continue well into the 21st century, with participation by older workers increasing rapidly.

A third source – and I think the most important in the long run – is minority workers. The numbers show that whatever the reason, the minority work force in the nation and in St. Louis is underutilized. Minorities account for 16 percent of the employed people in the St. Louis area…and 39 percent of the unemployed people. Minorities are proportionally represented in professional, technical and managerial occupations. Minorities are underrepresented in sales and skilled crafts – two areas projected for high growth – and overrepresented in semi-skilled and unskilled blue-collar occupations – two areas projected for little or no growth. Minority workers are most heavily overrepresented in service occupations, accounting for nearly 30 percent of employment…and while service occupations are projected for high growth, they're also the lowest-paying of the major occupational groups. There's an ongoing need for education and training programs to produce the workers to fill future jobs, and by economic necessity as well as the need for social justice, those programs will have a heavy emphasis on minorities.

One major concern, of course, is what impact the new era of "Homeland Security" will have on the job market. There's no doubt that the terror attacks and the war in Iraq have made the current slowdown worse; you only need look at air transportation and the hospitality industry to see two examples. How much worse…it sounds like a cop-out, but it really depends on whether there are any more major terrorist attacks in the United States. If we can pull the terrorists' claws, I expect that the economic impact of the attacks will pass (although the personal and psychological trauma will be much longer in passing). If that's the case, then I would expect to see a resumption of strong economic growth.

Now that I've done my best to cure your insomnia, what are my conclusions? First and foremost, the deregulated, free-trade labor market isn't "safe" any more. The person who stays for 31 years with the same employer - like me - is becoming an increasingly rare bird. The technical and social changes in the labor market mean that workers have to keep their skills and training up to date. But if it's a dangerous labor market, it's also a labor market of tremendous opportunity for people with technical, management and communications skills. Thank you.

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